

Abstract

The spread of diversification has generated plentiful research over the past forty years, and the theory on corporate diversification has been finely developed. However, the evolution and changing patterns of diversification strategy in Taiwan for past decades have not been well studied. The current paper aims at empirically examining the diversification strategy of the business groups in Taiwan, and comparing the findings with those for Western countries. This paper first briefly reviews the spread of diversification and the trend to refocusing in the Western economies. Existing theories on the rationales of diversification are then reviewed. The appropriateness of employing the existing knowledge to understand the diversification strategies of Taiwanese business groups is discussed, followed by the hypotheses. Historical facts in Taiwan during the period of 1974-1994 are examined to test empirically these hypotheses. The top one hundred business groups in Taiwan were used as the research sample. It emerges from the empirical findings that, due to several institutional, social, and cultural factors, the diversification strategies of business groups in Taiwan show certain differences from their Western counterparts: vertical integration has been the most widely employed strategy in Taiwan, followed by unrelated diversification and related diversification; the trend to refocusing can be observed in Taiwan but this trend is not as apparent as in the USA.

Keywords: strategy, diversification, business groups